

STATE OF HAWAII—DEPARTMENT OF TAXATION  
**INSTRUCTIONS FOR FORM N-30**  
**CORPORATION INCOME TAX RETURN**

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## General Instructions

### FILING REQUIREMENTS.

**Caution—**The attachment of a copy of the federal corporation return, Form 1120, is not acceptable as a substitute for fully completing the Hawaii corporation return, Form N-30.

### CORPORATION REQUIRED TO MAKE A RETURN ON FORM N-30.

A Corporation Income Tax Return, Form N-30, shall be filed by every corporation, including regulated investment companies and real estate investment trusts, domestic or foreign, other than one qualifying as an S Corporation, having gross income from property owned, trade or business carried on, or any other source in Hawaii, unless expressly exempted as stated below. In addition, every domestic corporation (except one exempted) shall file this return if it has gross income from property owned, trade or business carried on, or any other source outside Hawaii, unless subjected to income tax thereon in any other jurisdiction. (Subjection to federal tax does not constitute subjection to income tax in another jurisdiction.)

An affiliated group of domestic corporations may make and file a consolidated return for the taxable year in lieu of separate returns in the manner and to the extent, so far as applicable, set forth in the IRC section 1501 through 1505 and 1552, as amended.

For tax years beginning after December 31, 1989, any corporation having a valid S Corporation election for federal income tax purposes must use Hawaii Form N-35, S Corporation Tax Return.

### EXEMPTIONS.

Section 235-9, Hawaii Revised Statutes (HRS), provides that the following shall not be taxable under the Hawaii Income Tax Law:

- (1) Banks, building and loan associations, financial services loan companies, financial corporations, small business investment companies and development companies taxable under the provisions of Chapter 241, HRS.
- (2) Insurance companies, agricultural cooperative associations and fish marketing associations exclusively taxable under the provisions of other laws.

Form N-70NP must be filed reporting "unrelated business taxable income" if federal Form 990T is required under the Internal Revenue Code.

### GROSS INCOME, TAXABLE INCOME, DEFINED.

"Gross income" and "taxable income" are defined to have the same meaning as in the Internal Revenue Code of 1986, as amended, except as otherwise provided in the Hawaii Income Tax Law.

For adjustments of income as returned for federal purposes, see Instructions for Schedule J.

### PERIOD TO BE COVERED BY RETURN.

Returns shall be filed for the calendar year 1996 or fiscal year beginning in 1996 and ending in 1997. A fiscal year is an accounting period of 12 months ending on the last day of a calendar month other than December. If a taxpayer has no annual accounting period or keeps no books, or has an annual accounting period which does not qualify as a fiscal year, the return must be filed for the calendar year, except as provided in IRC section 443.

### CHANGES IN ACCOUNTING PERIODS.

Hawaii has adopted IRC section 442, effective for taxable years beginning after December 31, 1977. Taxpayers are required to use federal Form 1128 in order to secure the consent of the Director of Taxation for a change in accounting period.

### ACCOUNTING METHODS.

Hawaii has adopted IRC sections 446 and 447 effective for taxable years beginning after December 31, 1977.

### CHANGES IN METHODS OF ACCOUNTING.

Hawaii has adopted IRC section 481, effective for taxable years beginning after December 31, 1977. In order to secure the consent of the Director of Taxation for a change in the method of accounting, a taxpayer is required to submit a copy of federal Form 3115.

### FILING OF RETURN AND PAYMENT OF TAX.

Returns must be filed on or before the 20th day of the 4th month following the close of the taxable year (if the due date falls on a Saturday, Sunday, or legal holiday, file by the next regular workday) with the taxation district office in which the corporation's principal place of business is located, or if there is no such place of business in Hawaii, then with the Department of Taxation, P.O. Box 3559, Honolulu, Hawaii 96811-3559.

The addresses and locations of the taxation district offices are as follows:

#### MAILING ADDRESSES

OAHU DISTRICT OFFICE  
P.O. Box 3559  
Honolulu, Hawaii 96811-3559

MAUI DISTRICT OFFICE  
P.O. Box 913  
Wailuku, Hawaii 96793-0913

HAWAII DISTRICT OFFICE  
P.O. Box 1377  
Hilo, Hawaii 96721-1377

KAUAI DISTRICT OFFICE  
P.O. Box 1688  
Lihue, Hawaii 96766-5688

#### LOCATIONS

OAHU DISTRICT OFFICE  
830 Punchbowl Street  
Honolulu, Hawaii 96813-5045  
Telephone: (808) 587-6515 (Jan.-April 20)  
(808) 587-4242  
Toll-Free: 1-800-222-3229

MAUI DISTRICT OFFICE  
State Office Building  
54 High Street  
Wailuku, Hawaii 96793-2126  
Telephone: (808) 984-8500

HAWAII DISTRICT OFFICE  
State Office Building  
75 Aupuni Street  
Hilo, Hawaii 96720-4253  
Telephone: (808) 974-6321

KAUAI DISTRICT OFFICE  
State Office Building  
3060 Eiwa Street  
Lihue, Hawaii 96766-1310  
Telephone: (808) 274-3456

The official U.S. Post Office cancellation mark will be considered primary evidence of the date of filing of tax documents and payments. Timely filing of mail which does not bear a U.S. Post Office cancellation mark will be determined by reference to other competent evidence.

### REQUEST FOR EXTENSION.

File Form N-301 to request an automatic 6-months extension of time to file Form N-30.

**Caution:** The use of federal Form 7004 will not be allowed as a substitute for fully completing the Application For Automatic Extension of Time To File Hawaii Corporation Income Tax Return, Form N-301.

### PAYMENT OF TAX.

The balance of the tax due as shown on Form N-30, page 1, line 35, must be paid in full with the tax return. The tax may be paid in cash or by money order, or by check made payable to the Hawaii State Tax Collector in U.S. dollars drawn on any bank in the U.S.

### ESTIMATED TAX.

If the corporation expects to have a tax liability on its tax return for the year, a Declaration of Estimated Income Tax for Corporations, Form N-3, shall be filed for the corporation. Estimated payments are paid in four installments.

A corporation on a calendar year basis must pay the first installment, 1/4 of the estimated tax due, on or before April 20, the second installment on or before June 20, the third installment on or before September 20, and the fourth installment on or before January 20 of the year following the close of the calendar year. A corporation on a fiscal year basis must pay the first installment on or before the 20th day of the 4th month of the fiscal year, the second installment on or before the 20th day of the 6th month of the fiscal year, the third installment on or before the 20th day of the 9th month of the fiscal year, and the fourth installment on or before the 20th day of the 1st month following the close of the fiscal year.

In the case of any underpayment of estimated tax, there shall be added to the tax, an amount determined at the rate of two-thirds of one percent a month or fraction of a month on the amount of tax underpaid as provided under section 235-97(f), HRS. Willful failure to make a required declaration of estimated tax is an offense punishable as provided under section 235-105, HRS.

## PENALTY AND INTEREST.

For failure to file a return, penalties will be assessed up to 25% of the net amount due. If an extension of time for filing has been granted, penalties will not be assessed on returns filed within the extension period. However, returns filed after the extension period will be assessed penalties from the due date. On a timely filed return, a penalty of 20% of the tax due will be assessed if any tax remains unpaid after 60 days from the due date of the return. Interest at the rate of 2/3 of 1% per month or fraction of a month shall be assessed on unpaid taxes and penalties assessed beginning with the first calendar day after the date prescribed for payments, whether or not the due date falls on a Saturday, Sunday, or legal holiday.

## SIGNATURE.

The return must be signed and dated by the president, vice president, treasurer, assistant treasurer, chief accounting officer, or any other corporate officer (such as tax officer) authorized to sign. A receiver, trustee, or assignee must sign and date any return required to be filed on behalf of a corporation.

If a corporate officer prepared Form N-30, the Paid Preparer's space under "Signature of officer" should remain blank. If a person preparing Form N-30 does not charge the corporation, that person should not sign the return. Certain others who prepare Form N-30 should not sign. For example, a regular, full-time employee of the corporation such as a clerk, secretary, etc., does not have to sign. (This list is not all inclusive.)

Generally, anyone who is paid to prepare Form N-30 must sign the return and fill in the other blanks in the "Paid Preparer's Information" area of the return.

If you have questions about whether a preparer is required to sign Form N-30, please contact your district office.

The preparer required to sign the return MUST complete the required preparer information and:

- Sign it, by hand, in the space provided for the preparer's signature. (Signature stamps or labels are not acceptable.)
- Give a copy of Form N-30 to the taxpayer, in addition to the copy filed with the Department of Taxation.

## CHANGE IN FEDERAL TAXABLE INCOME, REQUIRED REPORTS.

- (a) Section 235-101(b), HRS, requires a report to the Director of Taxation if the amount of federal taxable income is changed, corrected, adjusted or recomputed as stated in (c).
- (b) This report must be made:
  - (1) Within 90 days after a change, correction, adjustment or recomputation is finally determined.
  - (2) Within 90 days after an amended return is filed.
- (c) The report shall be made in the form of an amendment of the corporation's State tax return filed. The amended tax return shall be accom-

panied by a copy of the document issued by the United States changing the federal taxable income of the corporation.

- (d) A report within the time set out in (b) is required if:
  - (1) The amount of taxable income as returned to the United States is changed, corrected or adjusted by an officer of the United States or other competent authority.
  - (2) A change in taxable income results from a renegotiation of a contract with the United States or a subcontract thereunder.
  - (3) A recomputation of the income tax imposed by the United States under the Internal Revenue Code results from any cause.
  - (4) An amended income tax return is made to the United States.

## UNITARY BUSINESS.

Every corporation carrying on a unitary business within and without Hawaii must file "Allocation and Apportionment of Income, Schedules O and P" as attachments to Form N-30.

## Specific Instructions

These instructions are numbered to correspond to the line items of Form N-30 and its schedules. Other line items on the form are self-explanatory.

## Gross Income

### Line 1

#### Gross receipts

Enter gross receipts or sales from all business operations except those that must be reported on lines 4 through 10. For reporting advance payments and long-term contracts, see IRC Regulation sections 1.451-3 and 1.451-5.

If the installment method is used, enter on line 1 the gross profit on collections from installment sales, and carry the same amount to line 3. Attach a schedule showing the following for the current year and the 3 preceding years: **a.** gross sales, **b.** cost of goods sold, **c.** gross profits, **d.** percentage of gross profits to gross sales, **e.** amount collected, and **f.** gross profit on amount collected.

### Line 2

#### Cost of goods sold and/or operations

See the instructions for Schedule A.

### Line 4

#### Dividends

See the instructions for Schedule C.

### Line 5

#### Gross interest on government obligations

Any interest received from other states and their political subdivisions ("municipal" bond interest) is subject to tax. However, interest received from obligations of the U.S. and the State of Hawaii or its political subdivisions is exempt.

### Line 6

#### Other Interest

Enter interest on loans, notes, mortgages, bonds, bank deposits, corporate bonds, tax refunds, etc.

Do not offset interest income against interest expense.

### Line 7

#### Gross rents

Enter the gross amount received for the rent of property. Deduct expenses such as repairs, interest, taxes, and depreciation on the proper lines for deductions.

### Line 9(a)

#### Capital gain net income

Every sale or exchange of a capital asset must be reported in detail on Schedule D, even though no gain or loss is indicated.

## COMMODITY FUTURES AND STRADDLE POSITIONS.

To report gains and losses from regulated futures contracts and straddles, use federal Form 6781, Gains and Losses From Section 1256 Contracts and Straddles.

### Line 9(b)

#### Net gain or (loss)

Enter the net gain or loss from Schedule D-1, Sales of Business Property, Part II, line 20.

### Line 10

#### Other Income

Enter any other taxable income not listed above, and explain its nature on an attached schedule. Examples of other income are recoveries of bad debts deducted in prior years under the specific charge-off method and refunds of taxes deducted in prior years. Do not offset current year's taxes with tax refunds.

If "other income" consists of only one item, explain what it is in parentheses on line 10.

## Deductions

### Transaction between related taxpayers.

See IRC section 267 for limitation on deductions for unpaid expenses and interest.

### Line 12

#### Compensation of officers

Complete Schedule E, columns 1 through 6, for all officers.

In a consolidated return each member of an affiliated group must furnish this information.

### Line 13

#### Salaries and wages

Enter on line 13 the amount of total salaries and wages paid or incurred for the tax year. Do not include salaries and wages deducted elsewhere on your return, such as contributions to a Simplified Employee Pension which are deducted on line 24.

### Line 14

#### Repairs

Enter the cost of incidental repairs, such as labor and supplies, that do not add to the value of the property or appreciably prolong its life. However, see the instructions for line 20.

### Line 15

#### Bad debts

For tax years beginning after 1986, taxpayers (except for certain financial institutions) may no longer use the reserve method to determine the deduction

for bad debts. This rule extends to dealers who guarantee their customers' debts and who use the reserve method when deducting their bad debt losses arising from these guarantees.

You will be required to use the specific charge-off method in accounting for losses from bad debts. If, for tax years beginning before 1987, you maintained a reserve for bad debts, you must change to the specific charge-off method. Any balance you have in your reserve for bad debts is generally to be included in your income in equal amounts over a 4-year period starting with your first tax year beginning after 1986.

Any change from the reserve method is treated as a change that you initiated with the consent of the Director of Taxation. Therefore, this change in method is a change required by law and not one that requires consent.

## Line 17

### Taxes

Enter taxes paid or accrued during the tax year.

Do not include the following: **1.** federal income taxes or **2.** taxes not imposed on the corporation. See IRC section 164(d) for apportionment of taxes on real property between seller and purchaser.

## Line 18

### Interest

Do not include interest on indebtedness incurred or continued to purchase or carry obligations on which the interest is wholly exempt from income tax. (For exceptions, see IRC section 265(2).)

Generally, a cash basis taxpayer cannot deduct prepaid interest allocable to years following the current tax year. For example, a cash basis calendar year taxpayer, who in the current tax year prepaid interest allocable to a period other than the current tax year, can deduct only the amount allocable to the current tax year. Please see federal Publication 545, Interest Expense.

Generally, the interest and carrying charges or straddles cannot be deducted but must be capitalized. See IRC section 263(g).

## Line 19

### Contributions

Enter contributions or gifts actually paid within the tax year to or for the use of charitable and governmental organizations described in IRC section 170(c) and any unused contributions carried over from prior years.

The total amount claimed may not be more than 10% of taxable income as shown on Schedule J, line 13 (for taxpayers apportioning income, not more than 10% of taxable income on Form N-30, Schedule O, line 22) computed without regard to the following: **1.** any deduction for contributions; **2.** deductions allowed under IRC section 249; and **3.** any net operating loss carryback to the tax year under IRC section 172, with modifications as provided under section 235-7(d), HRS.

Charitable contributions over the 10% limitation may not be deducted for the tax year but may be carried over to the next 5 years.

A contribution carryover is not allowed, however, to the extent that it increases a net operating loss carryover. See IRC section 170(d)(2)(B).

Corporations on the accrual basis may elect to deduct contributions paid by the 20th day of the 4th month after the end of the tax year if the contributions are authorized by the board of directors during the tax year. Attach to the return a declaration, signed by an officer, stating that the resolution

authorizing the contributions was adopted by the board of directors during the tax year. Also attach a copy of the resolution.

**Note:** *To take a deduction for non-cash contributions, other than publicly traded securities, after December 31, 1984, a closely held corporation (other than S corporations) or a personal service corporation (other than S corporations) must get a qualified appraisal if the claimed value of the donated property exceeds \$5,000 (\$10,000 for closely held stock). The qualified appraisal must be submitted with the tax return. Attach a copy of federal Form 8283 to the return.*

If a contribution is in property other than money, attach a schedule describing the kind of property contributed and the method used in determining its fair market value. If the corporation made a "qualified conservation contribution" under IRC section 170(h), also include the fair market value of the underlying property before and after the donation, the type of legal interest contributed, and describe the conservation purpose furthered by the donation.

If a contribution carryover is included, show the amount and how it was determined.

## Line 20

### Depreciation

See the instructions for federal Form 4562, Depreciation and Amortization. Attach federal Form 4562 to your return.

## Line 22

### Depletion

See IRC sections 613 and 613A for percentage depletion rates applicable to natural deposits.

Attach federal Form T (Timber), Forest Activities Schedules, if the corporation claims a deduction for depletion of timber.

## Line 25

### Employee benefit programs

Enter the amount of contributions to employee benefit programs (for example, insurance, health and welfare programs) that are not an incidental part of a pension, profit-sharing, etc., plan included on line 24. Also include contributions to a qualified group legal services plan.

## Line 26

### Other deductions

Generally, a corporation may not take a deduction for the amount of any item or part of it allocable to a class of exempt income. (See IRC section 265(2) for exceptions.)

Include on line 26 the deduction taken for amortization. See federal Form 4562.

If patronage dividends are included on line 26, show this deduction and any other deduction not listed above on an attached schedule.

# Credits

## Line 30

### Total Non-Refundable Credits

See the instructions for Schedule H.

## Line 32(b)

### Estimated Taxes

In addition to the current year estimated taxes paid, include payments made by the corporation on the disposition of Hawaii real property under the provi-

sions of section 235-68, HRS, on Forms N-288 and N-288A, net of refunds from Form N-288C. Include also on this line the corporation's share of income taxes withheld, net of refunds, by pass-through entities on the disposition of Hawaii real property. Attach a copy of the corporation's Hawaii Schedule K-1 for the amount claimed.

## Line 32(d)

### Capital Goods Excise Tax Credit

A 4% tax credit is available to Hawaii businesses on qualifying business property acquired and placed in service during the taxable year. See Form N-312 for more information.

## Line 32(e)

### Fuel Tax Credit for Commercial Fishers

Each principal operator of a commercial fishing vessel may claim an income tax credit against the corporate income tax for certain fuel taxes paid during the year. The tax credit shall be an amount equal to the fuel taxes imposed under section 243-4(a), HRS, and paid by the principal operator during the taxable year.

Taxpayers claiming this credit must complete Form N-308 and attach this form to the income tax return Form N-30 and enter on line 32(e) the amount of credit claimed.

## Line 34

### Estimated Tax Penalty

A corporation that does not make estimated tax payments when due may be subject to an underpayment penalty for the period of underpayment. Generally, a corporation is subject to the penalty if the tax liability is \$500 or more, and the corporation did not pay the smaller of (a) 100% of the tax liability for the current taxable year, or (b) 100% of the corporation's prior year's tax liability. Refer to IRC section 6655 for more information.

Form N-220, Underpayment of Estimated Tax by Corporations, is used to see if the corporation owes an underpayment of tax penalty and to figure the amount of the penalty. You must also complete and attach Form N-220 to the corporate tax return (Form N-30) if the corporation does not owe an underpayment of estimated tax penalty and: (1) the annualized income or adjusted seasonal installment method is used to compute the estimated tax, or (2) the corporation is a "large corporation" computing its first required estimated tax installment based on the prior year's tax liability. A "large corporation" is defined as a corporation (other than a S corporation) that had, or its predecessor, has taxable income of \$1 million or more for any of the 3 tax years preceding the current tax year.

Form N-220 includes the standard and optional annualized income installment method periods that may be used to determine the estimated tax of certain corporations, S corporations, and tax exempt organizations subject to the unrelated business income tax. If the taxpayer is electing to use one of the optional annualization periods on federal Form 8842 for State estimated income tax purposes, a copy of this form must be submitted to the District Tax Assessor by the 20th day of the 4th month of the tax year for which the election applies. Refer to the Instructions for Form N-220.

## Line 35

If line 35 shows a tax due, pay this amount in full. Send payment to the taxation district office to which the Declaration of Estimated Tax was made or would have been made.

# Schedule A

## Cost of Goods Sold and/or Operations

**Valuation Methods.** Your inventories can be valued at: **1.** cost; **2.** cost or market value (whichever is lower); or **3.** any other method that is approved by the Director of Taxation and that conforms to the provisions of the applicable regulations cited below.

Taxpayers using erroneous valuation methods must change to a method permitted for federal income tax purposes. Such change should be made by attaching federal Form 3115. For more information about the change, see IRC Regulation section 1.446-1(e)(3) and IRS Rev. Proc. 80-51, 1980-2 C.B. 818.

On line 8(a), check the method(s) used for valuing inventories. Under "lower of cost or market," market generally applies to normal market conditions where there is a current bid price prevailing at the date the inventory is valued. When no regular open market exists or when quotations are nominal because of inactive market conditions, use fair market prices from the most reliable sales or purchase transactions that occurred near the date the inventory is valued. For more requirements, see IRC Regulation section 1.471-4.

If you used a method of inventory valuation other than those described on line 8(a), indicate the method used on line 8(a)(iii). Attach a statement describing the method used.

Inventory may be valued below cost when the merchandise is unsalable at normal prices or is unusable in the normal way because the goods are "subnormal" (that is because of damage, imperfections, shop wear, etc.) within the meaning of IRC Regulation section 1.471-2(c). Check box on line 8(b) if there was a writedown of "subnormal" goods. See IRC Regulation section 1.471-2(c) for more requirements.

If this is the first year the "Last-in First-out" (LIFO) inventory method was either adopted or extended to inventory goods not previously valued under the LIFO method, provided in IRC section 472, attach federal Form 970, Application to Use LIFO Inventory Methods, or a statement with the information required by federal Form 970. Also check the LIFO box on line 8(c). Enter the amount or percent of total closing inventories covered under IRC section 472 on line 8(d). Estimates are acceptable.

If the corporation changed or extended its inventory method to LIFO and had to "writeup" its opening inventory to cost in the year of election, report the effect of this writeup as income (line 10, page 1) proportionately over a 3-year period that begins in the tax year you made this election. (IRC section 472(d).)

**Full absorption method of Inventory costing.** For a corporation engaged in manufacturing or production operations, use the full absorption method of inventory costing. If the corporation is not using the full absorption method, it must change to it. Under this method both direct and certain indirect production costs are included for inventory valuation purposes. You may change to full absorption by attaching federal Form 3115. For more details, see IRS Rev. Proc. 75-40, 1975-2 C.B. 571, and IRC Regulation section 1.471-11; and Rev. Rul. 81-272, 1981-2 C.B. 116.

# Schedule C

## Income from Dividends

**Column 1**  
Enter name of corporations paying dividends.

**Column 2**  
Enter dividends received from corporations that are at least 95% owned by one or more corporations doing business in Hawaii at the date of payment and are subject to an income tax (other than federal income tax) in another jurisdiction.

**Column 3**  
Enter dividends received from corporations that are organized and doing business as banks or insurance companies under the laws of Hawaii.

**Column 4**  
Enter the amount of dividends received from corporations that attribute at least 15% of their entire gross income from all sources and without regard to taxability to Hawaii, for the taxable year preceding the payment of the dividends.

**Column 5**  
Enter dividends received from all other corporations, except those from national banking associations and members of an affiliated group. (A corporation is allowed a deduction under Schedule J, line 5, of 100% of the dividends received from national banking associations and the qualifying dividends, as defined in IRC section 243(b), received from members of an affiliated group.)

# Schedule H

## Non-Refundable Credits

**Line 1**  
**Credit for Energy Conservation**

Each corporate resident taxpayer who files a corporate income tax return may claim a tax credit against its corporate income tax liability for a solar or wind energy system, heat pump, or ice storage system, installed and placed in service during the taxable year. Additions to existing systems (e.g., additional solar energy panels) and systems for a second home qualify for this credit. The cost of repairs to existing systems, however, do not qualify for this credit. The tax credit shall apply only to the actual cost of the solar or wind energy system, heat pump, or ice storage system, including their accessories and installation, and shall not include the cost of consumer incentive premiums unrelated to the operation of the system or offered with the sale of the system or heat pump (such as "free gifts", offers to pay electricity bills, or rebates).

The tax credit may be claimed for the following energy conservation systems installed and placed in service after 12/31/89 (12/31/90 for ice storage system), but before 1/1/99:

Type of Energy Conservation System	Tax Credit Rate
1. Wind energy systems	20% of the actual cost of the system.
2. Solar energy systems	
a. New and existing single family residential buildings	the lesser of 35% of the actual cost of the system or \$1,750.

b. New and existing Multi-unit buildings used primarily for residential purposes.	Per building unit: The lesser of 35% of each unit's actual cost of the system or \$350.
c. New and existing hotel, commercial and industrial facilities.	35% of the actual cost of the system.
3. Heat pumps	
a. New and existing single family residential buildings	the lesser of 20% of the actual cost of the system or \$400.
b. New and existing Multi-unit buildings used primarily for residential purposes.	Per building unit: The lesser of 20% of each unit's actual cost of the system or \$200.
c. New and existing hotel, commercial and industrial facilities.	20% of the actual cost of the system.
4. Ice storage systems	50% of the actual cost of the system.

Tax credits that exceed your income tax liability are not refunded but may be used as a credit against your income tax liability in subsequent years until exhausted.

To determine this tax credit, use Form N-306 and attach the form to the income tax return Form N-30 and enter on Schedule H, line 1, the amount of credit claimed.

**Line 2**  
**Enterprise Zone Tax Credit**

A qualified enterprise zone business is eligible to claim a credit for a percentage of taxes due the State attributable to the conduct of business within a zone and a percentage of the amount of unemployment insurance premiums paid based on the payroll of employees employed at the business firm establishments in the zone. The applicable percentage is 80% the first year; 70% the second year; 60% the third year; 50% the fourth year; 40% the fifth year; 30% the sixth year; and 20% the seventh year. This credit is not refundable and any unused credit may NOT be carried forward. Attach Form N-756, Enterprise Zone Tax Credit, to support your claim for this credit.

**Line 3**  
**Low-Income Housing Tax Credit**

Hawaii's low-income housing tax credit is equal to 30% of the federal credit for qualified buildings located in the State of Hawaii. The federal credit must be claimed in order to claim the Hawaii credit. Attach Form N-586, Tax Credit for Low-Income Housing, to the income tax return on which the credit is claimed.

Contact the Housing Finance Development Corporation for qualifying requirements and further information.

**Line 4**  
**Credit For Employment of Vocational Rehabilitation Referrals**

The amount of the tax credit for the taxable year shall be equal to 20% of the qualified first-year wages for that year. The amount of the qualified first-year wages which may be taken into account with respect to any individual shall not exceed \$6,000.

"Qualified wages" means the wages paid or incurred by the employer during the taxable year to an individual who is a vocational rehabilitation referral and more than one-half of the wages paid or incurred for such an individual is for services performed in a trade or business of the employer.

"Qualified first-year wages" means, with respect to any vocational rehabilitation referral, qualified wages attributable to service rendered during the one-year period beginning with the day the individual begins work for the employer.

The credit allowed shall be claimed against net income tax liability for the taxable year. A tax credit which exceeds the taxpayer's income tax liability may be used as a credit against the taxpayer's income tax liability in subsequent years until exhausted.

Refer to Form N-884 for further information.

## Schedule J

### Adjustments to Income and Tax Computation

#### ADJUSTMENTS TO INCOME AS RETURNED FOR FEDERAL PURPOSES.

The following instructions set forth in general the adjustment to be made to the taxable income before net operating loss deduction and special deductions as shown on U.S. Corporation Income Tax Return, Form 1120. They do not purport to set forth each and every adjustment to be made. Specific questions should be submitted in writing for rulings.

**Note:** *The amount of the Capital Goods Excise Tax Credit allowed and claimed is to be treated as a taxable income item for the taxable year in which it is properly recognized under the method of accounting used to compute taxable income. Alternatively, the basis of eligible property for depreciation or ACRS purposes for State income taxes shall be reduced by the amount of the credit allowable and claimed.*

The instructions numbered 1 through 19 correspond with the line numbers on Schedule J, page 3 of the return:

**Line 1.** For unitary business taxpayers computing taxable income by an allocation and apportionment of income, also enter this amount on Form N-30, Schedule O, line 1. Skip lines 2 through 12 of Form N-30, Schedule J, however, adjustments related to the Credit for the Employment of Vocational Rehabilitation Referrals [line 2(b)] or the election to amortize natural disaster losses under section 235-7(f), HRS, (line 9) should be entered on Form N-30, Schedule O, State Adjustments section or the Income Wholly Attributable to Hawaii Subject to Tax section (Schedule O, page 2), as applicable.

**Line 2(a).** List deductions taken for federal tax purposes but not allowable, or allowable only in part, for Hawaii tax purposes. For example, deductions connected with income not taxable for Hawaii purposes.

**Line 2(b).** Enter the portion of the Credit for the Employment of Vocational Rehabilitation Referrals claimed on Schedule H, line 4, that applies only to those new employees hired during the current taxable year.

**Line 2(c).** Other adjustments. List all other adjustments here. Included here would be income from non-Hawaii state or municipal bonds.

**Line 5.** Enter here the entire amount of dividends received upon the shares of stock of a national bank and qualifying dividends, as defined in IRC section 243(b), received from members of an affiliated group if included on page 1, line 4.

**Line 6.** The special deductions allowed a corporation under Chapter 1, Subchapter B, Part VIII of the Internal Revenue Code are not allowed. However, there is allowed a deduction of 70% of the amount received as dividends upon certain stocks as follows:

- (1) Shares of stock of any corporation if at the time of payment of such dividend at least 95% of the paying corporation's capital stock is owned by one or more corporations doing business in Hawaii, and the paying corporation is subjected to an income tax in another jurisdiction;
- (2) Shares of stock of a bank or insurance company organized and doing business under the laws of the State of Hawaii;
- (3) Shares of stock of any corporation, if at least 15% of the paying corporation's business, for the taxable year of that corporation preceding the payment of the dividend, has been attributed to Hawaii and subjected to assessment of the taxable income therefrom, as set forth in section 235-7(c)(3), HRS.

**NOTE:** Act 103, SLH 1992, amended the deduction for qualified dividends received by a corporation. The deduction for qualifying dividends received from corporations described in section 235-7(c)(1) through (c)(3), HRS, is limited to 70%. The deduction for qualifying dividends, as defined in IRC section 243(b), received from members of an affiliated group is 100%. This amendment is effective for taxable years after December 31, 1991.

**Line 7.** Enter any interest received on obligations of the United States included in the federal return.

**Line 8.** If line 1 includes income of a foreign corporation from sources outside Hawaii, the excess of income over deductions attributed to this income must be entered on line 8. If line 1 includes income of a domestic corporation from sources outside Hawaii which has been subjected to income tax thereon in any other jurisdiction, the excess of this income over related deductions must be entered on line 8. Losses from sources outside of Hawaii must be added back.

For unitary business taxpayers allocating and apportioning income to Hawaii using Form N-30, Schedules O and P, do not deduct net income from sources outside Hawaii on this line.

**Line 9.** At the election of the taxpayer, losses of property as the result of tidal wave, hurricane, earth-

quake, or volcanic eruption, or as the result of flood waters overflowing the banks or walls of a river or streams, or from other natural disasters, to the extent of the amount deductible under Chapter 235, HRS, not compensated for by insurance or otherwise, may be prorated in equal installments over a period of five years, the first such year being the calendar or fiscal year of the taxpayer in which such loss occurred. Enter such amortization here if election is made for Hawaii purposes.

**Line 10.** Enter here the net operating loss sustained in the preceding year determined in accordance with section 235-7(d), HRS.

Effective with tax returns filed for taxable years beginning after December 31, 1981, a net operating loss carryback or carryover shall be allowed provided such loss is allowed under IRC section 172.

**Line 11.** Other deductions or adjustments. For example, political contributions not in excess of \$100 in the year to a central or county committee of a political party whose candidates shall have qualified by law to be voted for at the immediately previous general election. Also, the gross-up of dividends required by IRC section 78 and Subpart F income (IRC sections 951-964) which are not adopted by Hawaii.

**Line 14.** For unitary business taxpayers using Form N-30, Schedules O and P, enter the amount of net capital gains from Schedule O, lines 24 and 29(b), if any.

**Line 16.** Tax computations. If the corporation has no net capital gains and if Schedule J, line 13 is not over \$25,000, the tax is 4.4% of line 13; if line 13 is over \$25,000 but not over \$100,000 the tax is 5.4% of line 13 less \$250; if line 13 is over \$100,000 the tax is 6.4% of line 13 less \$1,250.

If the corporation has a net capital gain (Schedule D, line 13), then the lesser of the following is used to compute the tax: (1) The net capital gains, line 16(a), are taxed at 4.0%, or if the taxable income exceeds the net capital gains, line 15, the excess is taxed at 4.4% if not over \$25,000, 5.4% if over \$25,000 but not over \$100,000 less \$250, and 6.4% on all over \$100,000 less \$1,250; or (2) Compute the tax on all taxable income, line 13, using the rates listed on line 16(b).

**Line 18.** Recapture of Capital Goods Excise Tax Credit. If property for which a credit has been taken ceases to be eligible property or is disposed of, recapture of all, or part, of the credit received may be necessary. See the Instructions for Form N-312, Part II for more information. Enter the amount of any recapture on line 18.

**Line 19.** Recapture of Low-Income Housing Tax Credit. Recapture may be necessary if: you dispose of a building or an ownership interest in it; there is a decrease in the qualified basis of the building from one year to the next; the building no longer meets the minimum set-aside requirements of IRC section 42(g)(1), the gross rent requirements of IRC section 42(g)(2), or the other requirements for the units comprising the set-aside. See the Instructions for Form N-586 for more information. Enter the amount of any recapture on line 19.